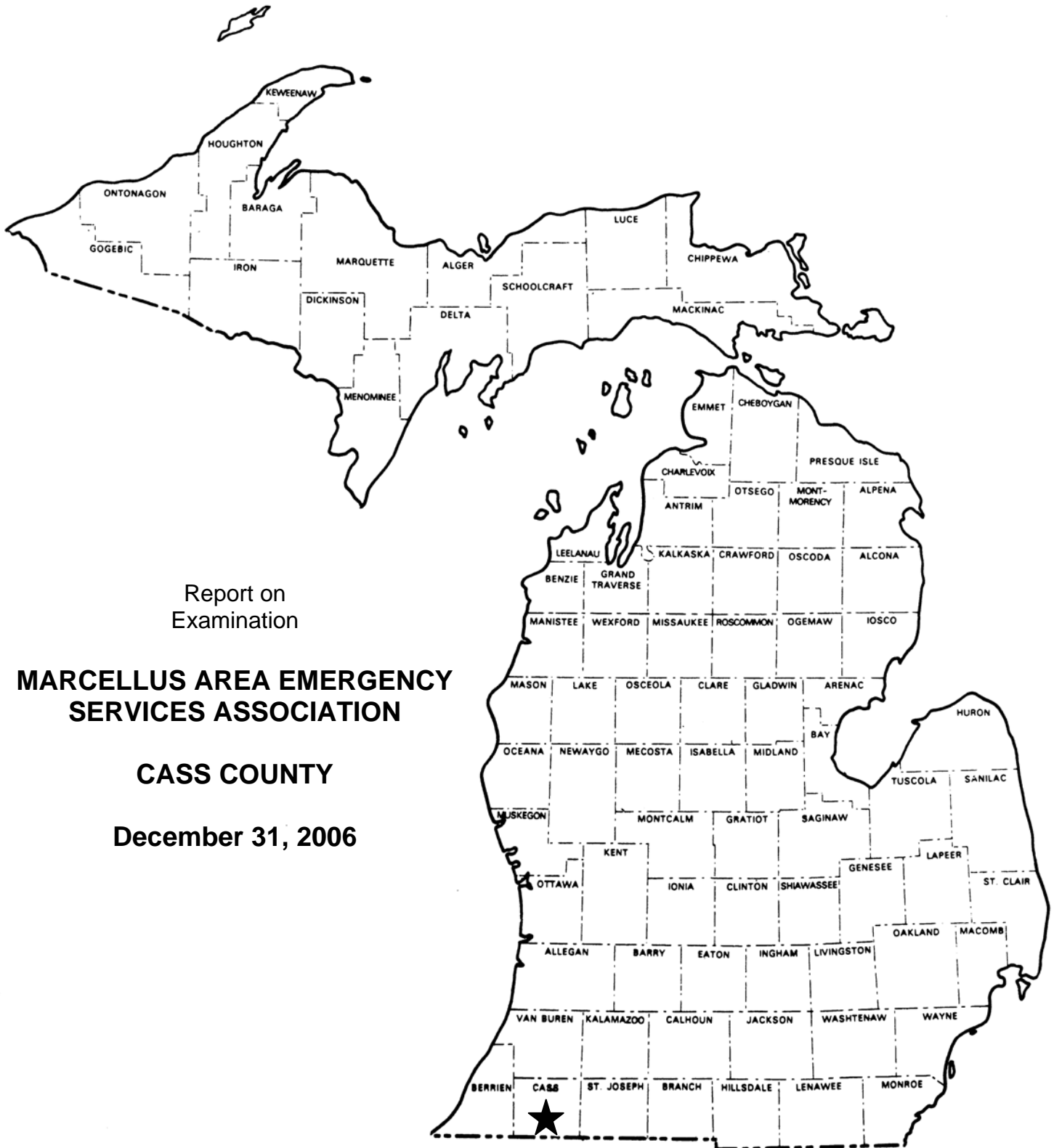


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Local Audit and Finance Division
Bureau of Local Government Services

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

BOARD MEMBERS

Sheila Boshovan
Chairperson

Larry Etter
Vice Chairperson

Richard James
Trustee

Mary Fisher
Secretary/Treasurer

James Reynolds
Trustee

APPOINTED POSITIONS

Jody Schick
Ambulance Director

James Thomas
Fire Chief

VILLAGE OF MARCELLUS POPULATION--2000
1,193

MARCELLUS TOWNSHIP POPULATION--2000
2,712



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

November 2, 2007

Marcellus Area Emergency Services Association
Board of Trustees
177 East Main Street
P.O. Box 367
Marcellus, Michigan 49067

RE: Unqualified Opinions on Basic Financial Statements Accompanied by
Required Supplementary Information

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Marcellus Area Emergency Services Association (MAESA), as of and for the year ended December 31, 2006, which collectively comprise MAESA's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of MAESA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of MAESA, as of December 31, 2006, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 2, 2007 on our consideration of MAESA's internal control over financial reporting

and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 3 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marcellus Area Emergency Services Association's basic financial statements. The accompanying supplemental and related information in Exhibits G and H are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', is positioned above the printed name.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

TABLE OF CONTENTS

	<u>Page</u>
MANAGEMENT’S DISCUSSION AND ANALYSIS	1
<u>BASIC FINANCIAL STATEMENTS</u>	
EXHIBIT A--Government-Wide Statement of Net Assets	4
EXHIBIT B--Government-Wide Statement of Activities	5
EXHIBIT C--Balance Sheet--Governmental Funds	6
EXHIBIT D--Statement of Revenues, Expenditures, and Changes in Fund Balances--Governmental Funds	7
NOTES TO FINANCIAL STATEMENTS	8
<u>REQUIRED SUPPLEMENTAL INFORMATION</u>	
EXHIBIT E--Budgetary Comparison Schedule--Operating Fund.....	16
EXHIBIT F--Budgetary Comparison Schedule--Special Revenue Fund Capital Account Fund.....	17
<u>SUPPLEMENTAL INFORMATION AND SCHEDULES</u>	
EXHIBIT G--Statement of Revenues and Other Financing Sources Budget and Actual--General Fund	18
EXHIBIT H--Statement of Expenditures--Budget and Actual--General Fund	19
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With <u>Government Auditing Standards</u>	20
Schedule of Findings	22

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Marcellus Area Emergency Services Association (MAESA), as a whole, and present a longer-term view of MAESA's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report MAESA's operations in more detail than the government-wide financial statements.

The Authority as a Whole

MAESA's net assets increased approximately 63.79%, or \$208,286, from \$326,520 to \$534,286 for the year ended December 31, 2006. The investment in capital assets-net of related debt increased by \$165,213 due to the purchase of a new fire truck and ambulance. The unrestricted net assets increased by \$43,073 during 2006. The primary reason was the Federal grant used to purchase equipment and the increased contributions from the townships.

Net assets as of year ended December 31, 2006, as follows:

	<u>2005</u>	<u>2006</u>	<u>Difference</u>	<u>%</u>
Current Assets	\$ 200,656	\$ 251,644	\$ 50,988	25.41%
Noncurrent Assets	<u>216,559</u>	<u>460,925</u>	<u>244,366</u>	<u>112.84%</u>
Total Assets	<u>417,215</u>	<u>712,569</u>	<u>295,354</u>	<u>70.79%</u>
Current Liabilities	6,502	14,417	7,915	121.73%
Noncurrent Liabilities	<u>84,193</u>	<u>163,346</u>	<u>79,153</u>	<u>94.01%</u>
Total Liabilities	<u>90,695</u>	<u>177,763</u>	<u>87,068</u>	<u>96.00%</u>
Net Assets				
Investment in Capital Assets				
Net of Related Debt	132,366	297,579	165,213	124.82%
Restricted for Permanent Trust Fund	50,000	50,000	-	0.00%
Unrestricted	<u>144,154</u>	<u>187,227</u>	<u>43,073</u>	<u>29.88%</u>
Total Net Assets	<u>\$ 326,520</u>	<u>\$ 534,806</u>	<u>\$ 208,286</u>	<u>63.79%</u>

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets as of the current date:

	<u>2005</u>	<u>2006</u>	<u>Difference</u>	<u>%</u>
Program Revenues				
Charges for Services	\$ 89,455	\$ 67,461	\$ (21,994)	-24.59%
Operating Grants and Contributions	127,239	154,230	26,991	21.21%
Capital Grants and Contributions	<u>49,250</u>	<u>243,912</u>	<u>194,662</u>	<u>395.25%</u>
Total Revenues	<u>265,944</u>	<u>465,603</u>	<u>199,659</u>	<u>75.08%</u>
Program Expenses				
Public Safety	243,123	252,495	9,372	3.85%
Interest Expense	<u>8,268</u>	<u>4,822</u>	<u>(3,446)</u>	<u>-41.68%</u>
Total Expenses	<u>251,391</u>	<u>257,317</u>	<u>5,926</u>	<u>2.36%</u>
Change in Net Assets	<u>\$ 14,553</u>	<u>\$ 208,286</u>	<u>\$ 193,733</u>	<u>1331.22%</u>

Governmental Activities

MAESA's total governmental revenues increased \$201,428 due to the FEMA grant received for a new fire truck and increased contributions from the townships. However, expenses also increased \$312,791 due to the equipment purchases.

	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2006</u>	<u>Amount Difference 2006</u>	<u>Percent Difference 2006</u>
Revenues				
Federal Grants		\$ 192,737	\$ 192,737	100%
Contributions From Local Units	\$ 168,230	187,479	19,249	11%
Charges for Services	89,035	68,810	(20,225)	-23%
Interest and Rentals	913	2,851	1,938	212%
Other	<u>7,346</u>	<u>15,075</u>	<u>7,729</u>	<u>105%</u>
Total Revenues	<u>265,524</u>	<u>466,952</u>	<u>201,428</u>	<u>76%</u>
Expenses				
Public Safety	154,804	143,637	(11,166)	-7%
Capital Outlay	9,268	353,224	343,956	3711%
Debt Service	<u>60,684</u>	<u>40,685</u>	<u>(19,999)</u>	<u>-33%</u>
Total Expenses	<u>224,756</u>	<u>537,546</u>	<u>312,791</u>	<u>139%</u>
Excess of Revenues Over Expenditures	<u>40,769</u>	<u>(70,594)</u>	<u>(111,363)</u>	<u>-273%</u>
Installment Loan Proceeds		<u>115,016</u>	<u>115,016</u>	<u>100%</u>
Excess of Revenues Over Expenditures After Other Financing Sources		<u>44,422</u>	<u>44,422</u>	<u>100%</u>
Beginning Fund Balance	<u>152,036</u>	<u>192,805</u>	<u>40,769</u>	<u>27%</u>
Ending Fund Balance	<u>\$ 192,805</u>	<u>\$ 237,227</u>	<u>\$ (111,363)</u>	<u>-58%</u>

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

MAESA's Funds

Our analysis of MAESA's major funds is explained in Note A, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not MAESA as a whole. The board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The MAESA's major funds for 2006 includes the Operating Fund, the Capital Account, and the Permanent Trust Fund.

The Operating Fund pays for most of MAESA's public safety services. These services are partially supported by the contributions received from the participating townships and charges for services.

General Fund Budgetary Highlights

The budget this year was increased dramatically as MAESA received the FEMA grant for the new fire truck and also for the purchase of the new ambulance.

Capital Asset and Debt Administration

At the end of 2006, MAESA had \$460,925 invested in vehicles and equipment. In conjunction with the purchase of these assets, MAESA currently has an installment purchase agreement for a fire truck with a remaining balance of \$163,346.

Economic Factors and Next Year's Budgets and Rates

As we enter into the next year, Volinia Township has discontinued its contract which will create a decrease of about \$50,000 in revenues. MAESA is cutting expenses accordingly to adjust to this loss of revenue

Contacting MAESA's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of MAESA's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact our office.

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
December 31, 2006

EXHIBIT A

<u>ASSETS</u>	<u>Governmental Activities</u>
Current Assets	
Bank Deposits	\$ 228,182
Accounts Receivable (Net)	14,920
Prepaid Expenses	<u>8,542</u>
Total Current Assets	<u>251,644</u>
Noncurrent Assets	
Capital Assets--Net of Accumulated Depreciation	<u>460,925</u>
Total Noncurrent Assets	<u>460,925</u>
Total Assets	<u>712,569</u>
<u>LIABILITIES AND NET ASSETS</u>	
Current Liabilities	
Accounts Payable	12,452
Accrued Liabilities	<u>1,965</u>
Total Current Liabilities	<u>14,417</u>
Noncurrent Liabilities	
Installment Purchase Agreements Payable--Due Within One Year	48,330
Installment Purchase Agreements Payable--Due in More Than One Year	<u>115,016</u>
Total Noncurrent Liabilities	<u>163,346</u>
Total Liabilities	<u>177,763</u>
NET ASSETS	
Investment in Capital Assets	
Net of Related Debt	297,579
Restricted for Permanent Trust Fund	50,000
Unrestricted	<u>187,227</u>
Total Net Assets	<u><u>\$ 534,806</u></u>

The Notes to Financial Statements are an integral part of this statement.

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2006

EXHIBIT B

	<u>Governmental Activities</u>
Program Expenses	
Public Safety	\$ 252,495
Interest Expense	<u>4,822</u>
Total Program Expenses	<u>257,317</u>
Program Revenue	
Charges for Services	
Charges for Services	67,461
Operating Grants and Contributions	
Contributions From Local Units	136,304
Investment Earnings	2,851
Other	15,075
Capital Grants	
Federal Grants	192,737
Contributions From Local Units	<u>51,175</u>
Total Program Revenue	<u>465,603</u>
Change in Net Assets	<u>208,286</u>
Net Assets	
Beginning of Year	<u>326,520</u>
End of Year	<u><u>\$ 534,806</u></u>

The Notes to Financial Statements are an integral part of this statement.

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2006

EXHIBIT C

		<u>SPECIAL REVENUE FUND</u>	<u>PERMANENT FUND</u>	
	<u>Operating</u>	<u>Capital Account</u>	<u>Permanent Trust</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Bank Deposits	\$ 178,182		\$ 50,000	\$ 228,182
Accounts Receivable (Net)	14,920			14,920
Prepaid Expenses	8,542			8,542
Total Assets	<u>\$ 201,644</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 251,644</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities				
Accounts Payable	\$ 12,452			\$ 12,452
Accrued Liabilities	1,965			1,965
Total Liabilities	<u>14,417</u>	<u>\$ -</u>	<u>\$ -</u>	<u>14,417</u>
Fund Equity				
Fund Balances				
Reserved for Permanent Trust			50,000	50,000
Unreserved--Undesignated	187,227			187,227
Total Fund Equity	<u>187,227</u>	<u>-</u>	<u>50,000</u>	<u>237,227</u>
Total Liabilities and Fund Equity	<u>\$ 201,644</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 251,644</u>
Fund Balances--Total Governmental Funds				\$ 237,227
Amounts reported for governmental activities in the Statement of Net Assets are different because:				
Capital assets used in governmental activities are not financial resources and are not reported in the funds.				460,925
Long-term liabilities are not due and payable in the current period and are not reported in the funds.				<u>(163,346)</u>
Net Assets of Governmental Activities				<u>\$ 534,806</u>

The Notes to Financial Statements are an integral part of this statement.

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES--GOVERNMENTAL FUNDS
For the Year Ended December 31, 2006

EXHIBIT D

		SPECIAL REVENUE FUND	PERMANENT FUND	Total Governmental Funds
	Operating	Capital Account	Permanent Trust	
Revenues				
Federal Grants	\$ 192,737			\$ 192,737
Contributions From Local Units	136,304	\$ 51,175		187,479
Charges for Services	68,810			68,810
Interest and Rentals	976		\$ 1,875	2,851
Other Revenue	15,075			15,075
Total Revenues	413,902	51,175	1,875	466,952
Expenditures				
Public Safety	143,637			143,637
Capital Outlay	342,734	10,490		353,224
Debt Service				
Principal		35,863		35,863
Interest		4,822		4,822
Total Expenditures	486,371	51,175	-	537,546
Excess of Revenues Over (Under) Expenditures	(72,469)	-	1,875	(70,594)
Other Financing Sources (Uses)				
Installment Loan Proceeds	115,016			115,016
Interfund Transfers In	1,875			1,875
Interfund Transfers (Out)			(1,875)	(1,875)
Total Other Financing Sources (Uses)	116,891	-	(1,875)	115,016
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	44,422	-	-	44,422
Fund Balance--January 1, 2006	142,805	-	50,000	192,805
Fund Balance--December 31, 2006	\$ 187,227	\$ -	\$ 50,000	\$ 237,227

Excess of Revenue over Other Sources Over (Under) Expenditures and Other Uses \$ 44,422

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation. 244,366

Long-term revenues are recorded in the Statement of Activities when the revenue is earned; they are not reported in the funds if collected after 60 days of year end. (1,349)

Repayments of installment purchase agreements is an expenditure in the governmental funds, but not in the Statement of Activities (where it reduces the long-term debt). (79,153)

Change in Net Assets of Governmental Activities \$ 208,286

The Notes to Financial Statements are an integral part of this statement.

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Marcellus Area Emergency Services Association (MAESA) is an authority that was established by the Village of Marcellus and Marcellus Township to provide fire protection and ambulance services according to Public Act 33 of 1951. MAESA is governed by a six member board consisting of three members appointed by each unit.

The accounting policies of MAESA conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by MAESA.

REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the authority (the primary government) and its component units. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by MAESA.

When both restricted and unrestricted resources are available for use, it is MAESA's policy to use restricted resources first, then unrestricted resources as they are needed.

MAESA reports the following major governmental funds:

The General Fund is MAESA's primary operating fund. It accounts for all financial resources of MAESA, except those required to be accounted for in another fund.

The Capital Account, accounts for the millage revenue that is reserved for capital purchases.

The Permanent Trust Fund accounts for the resources that are legally restricted to the extent that only earnings, and not principal, may be used for the operations of MAESA.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Bank Deposits and Investments

The cash is considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Vehicles	7 years
Equipment	5 years

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

In the government-wide financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities on the Statement of Net Assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted by MAESA's board for the General Fund and Special Revenue Fund after a public hearing is held. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget is adopted at the activity level and control is exercised at the activity level. MAESA monitors and amends the budget as necessary. Unexpended appropriations lapse at year end.

Excess of Expenditures Over Appropriations in Budgeted Funds

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

MAESA has not complied with certain provisions of Public Act 2 of 1968, as amended. Items of noncompliance are as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund--Operating			
Ambulance			
Other Expenses	\$ 250	\$ 393	\$ (143)
Fire			
Other Expenses	250	393	(143)
Capital Outlay	50,000	123,302	(73,302)

NOTE C--BANK DEPOSITS

Michigan Compiled Laws 129.91, authorizes MAESA to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

MAESA has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. MAESA's deposits and investment policy are in accordance with statutory authority.

At year end, MAESA's bank deposits (checking and savings accounts, certificate of deposits) of \$228,182 are reported in the basic financial statements. The bank balance of the primary government's deposits is \$230,355, of which \$100,000 is covered by Federal depository insurance.

Investments Authorized by the MAESA's Investment Policy

MAESA's investment policy only authorizes investment in all those that are authorized by law. MAESA currently has no investments and, therefore, no disclosures relating to interest rate risk, concentration of credit risk, or custodial credit risk are disclosed.

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE D--TRANSFERS IN AND (OUT)

The 2006 operating transfers from Exhibit D can be summarized as follows:

	<u>Transfers In</u>		<u>Transfers (Out)</u>
General Fund	<u>\$ 1,875</u>	Permanent Trust	<u>\$ 1,875</u>
	<u>\$ 1,875</u>		<u>\$ 1,875</u>

NOTE E--CAPITAL ASSETS

Capital asset activity of the authority for the current year, as follows:

	Account Balances 01/01/06	Additions	Deductions	Account Balances 12/31/06
Capital Assets Being Depreciated				
Equipment--Fire	\$ 284,886	\$ 4,146	\$ 9,721	\$ 279,311
Equipment--Ambulance	31,934	2,703		34,637
Vehicles--Fire	520,249	225,776	15,000	731,025
Vehicles--Ambulance	157,773	120,599	69,861	208,511
Total	<u>994,842</u>	<u>353,224</u>	<u>94,582</u>	<u>1,253,484</u>
Less Accumulated Depreciation				
Equipment--Fire	253,610	14,139	9,721	258,028
Equipment--Ambulance	17,181	4,871		22,052
Vehicles--Fire	387,361	77,289	15,000	449,650
Vehicles--Ambulance	120,131	12,559	69,861	62,829
Total	<u>778,283</u>	<u>108,858</u>	<u>94,582</u>	<u>792,559</u>
Total Net Capital Assets	<u>\$ 216,559</u>	<u>\$ 353,224</u>	<u>\$ 108,858</u>	<u>\$ 460,925</u>

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT

The individual long-term debt and other long-term obligations of MAESA, and the changes therein, may be summarized as follows:

	<u>Balance 01/01/06</u>	<u>Additions (Reductions)</u>	<u>Balance 12/31/06</u>	<u>Due Within One Year</u>
MAESA promissory note for an installment purchase agreement for equipment, \$200,000 maturing serially through 2008 in amounts ranging from \$28,652 and \$38,376, and at an interest rate of 6%.	\$ 84,193	\$ (35,849)	\$ 48,344	\$ (48,344)
MAESA promissory note for an installment purchase agreement for equipment, \$115,016 maturing serially through 2012 in amounts ranging from \$20,305 and \$25,858, and at an interest rate of 6.25%.	<u> </u>	<u>115,016</u>	<u>115,016</u>	<u> </u>
Totals	<u>\$ 84,193</u>	<u>\$ 79,167</u>	<u>\$ 163,360</u>	<u>\$ (48,344)</u>

The annual interest and principal requirements of MAESA's long-term borrowing may be summarized as follows:

Date of Issue: December 5, 2002

Amount: \$200,000

Purpose: Fire Truck and Equipment

<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Annual Maturity November 4</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
6.00%	2008	<u>\$ 48,344</u>	<u>\$ 914</u>	<u>\$ 49,258</u>
Total		<u>\$ 48,344</u>	<u>\$ 914</u>	<u>\$ 49,258</u>

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT

Date of Issue: December 5, 2002

Amount: \$200,000

Purpose: Fire Truck and Equipment

<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Annual Maturity January 5</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
6.00%	2008	\$ 20,306	\$ 7,388	\$ 27,694
	2009	21,574	5,920	27,494
	2010	22,923	4,572	27,495
	2011	24,355	3,138	27,493
	2012	<u>25,858</u>	<u>1,616</u>	<u>27,474</u>
Total		<u>\$ 115,016</u>	<u>\$ 22,634</u>	<u>\$ 137,650</u>

NOTE G--RISK MANAGEMENT

MAESA is exposed to various risks of loss related to property loss, torts, errors and omissions, and employees' injuries (workers' compensation). MAESA has purchased commercial insurance coverage through various policies for general liability, property, vehicle and workman's compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The Michigan Township's Participating Plan (Plan) operates as an insurance pool for local units of government in Michigan. The Plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
OPERATING FUND
For the Year Ended December 31, 2006

EXHIBIT E

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Federal Grants	-	\$ 193,325	\$ 192,737	\$ (588)
Contributions From Local Units	-	120,000	136,304	16,304
Charges for Services	-	52,000	68,810	16,810
Interest and Rentals	-	2,000	976	(1,024)
Other Revenue	-	14,800	15,075	275
Total Revenues	\$ -	382,125	413,902	31,777
Expenditures				
Public Safety	-	157,300	143,637	13,663
Capital Outlay	-	270,825	342,734	(71,909)
Total Expenditures	-	428,125	486,371	(71,909)
Excess of Revenues Over (Under) Expenditures	-	(46,000)	(72,469)	(40,132)
Other Financing Sources (Uses)				
Installment Loan Proceeds		46,000	115,016	69,016
Interfund Transfers In	-	-	1,875	1,875
Total Other Financing Sources (Uses)	-	46,000	116,891	70,891
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	44,422	44,422
Fund Balance--January 1, 2006			142,805	142,805
Fund Balance--December 31, 2006	\$ -	\$ -	\$ 187,227	\$ 187,227

**MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUND--CAPITAL ACCOUNT
For the Year Ended December 31, 2006**

EXHIBIT F

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Contributions From Local Units	-	\$ 51,175	\$ 51,175	-
Total Revenues	\$ -	51,175	51,175	\$ -
Expenditures				
Capital Outlay	-	10,490	10,490	-
Debt Service				
Principal	-	35,863	35,863	-
Interest	-	4,822	4,822	-
Total Expenditures	-	51,175	51,175	-
Excess of Revenues Over (Under) Expenditures	-	-	-	-
Fund Balance--January 1, 2006	-	-	-	-
Fund Balance--December 31, 2006	\$ -	\$ -	\$ -	\$ -

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2006

EXHIBIT G

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>				
Federal Grants				
Homeland Security Grant		\$ 193,325	\$ 192,737	\$ (588)
Total Federal Grants	\$ -	193,325	192,737	(588)
Contributions From Local Units				
Contributions From Townships	-	120,000	136,304	16,304
Total Contributions From Local Units	-	120,000	136,304	16,304
Charges for Services				
Ambulance Department Runs	-	48,000	64,597	16,597
Fire Department Runs	-	4,000	4,213	213
Total Charges for Services	-	52,000	68,810	16,810
Interest				
Interest	-	2,000	976	(1,024)
Total Interest	-	2,000	976	(1,024)
Other Revenue				
Other			75	75
Sale of Fixed Assets		11,500	11,500	-
Donations and Memorials	-	3,300	3,500	200
Total Other Revenue	-	14,800	15,075	275
Total Revenue	-	382,125	413,902	31,777
Other Financing Sources				
Installment Loan Proceeds		46,000	115,016	69,016
Operating Transfers In	-	-	1,875	1,875
Total Other Financing Sources	-	46,000	116,891	70,891
Total Revenue and Other Financing Sources	\$ -	\$ 428,125	\$ 530,793	\$ 102,668

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION
STATEMENT OF EXPENDITURES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2006

EXHIBIT H

	Orginal Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Public Safety				
Ambulance Department				
Wages Expense	-	\$ 30,900	\$ 28,803	\$ 2,097
Training and Mileage	-	500	385	115
Office Supplies	-	997	951	46
Operating Supplies	-	7,400	7,265	135
Postage and Shipping	-	316	316	-
Gas, Oil, and Grease	-	2,700	2,669	31
Repairs and Maintenance	-	2,700	2,650	50
Collection Fees	-	30,107	27,290	2,817
Runs and Meetings	-	3,500	3,455	45
Audit Services	-	1,243	1,243	-
License Fees	-	150	150	-
Telephone	-	1,200	1,181	19
Radio Expense	-	500	334	166
Printing Expense	-	75	75	-
Other Expenses	-	250	393	(143)
Insurance	-	8,500	8,178	323
Rent	-	4,000	4,000	-
Total Ambulance Department	\$ -	95,037	89,336	5,701
Fire Department				
Wages Expense	-	5,250	5,200	50
Training and Mileage	-	2,300	2,131	169
Office Supplies	-	997	951	46
Operating Supplies	-	5,000	4,694	306
Postage and Shipping	-	316	316	-
Gas, Oil, and Grease	-	3,000	2,735	265
Repairs and Maintenance	-	15,500	10,960	4,540
Collection Fees	-	2,677	786	1,891
Runs and Meetings	-	5,000	4,889	111
Audit Services	-	1,243	1,243	-
License Fees	-	15	15	-
Telephone	-	850	696	154
Radio Expense	-	2,500	2,250	250
Printing Expense	-	75	75	-
Dues and Publications	-	565	565	-
Travel Expenses	-	227	227	-
Other Expenses	-	250	393	(143)
Insurance	-	8,500	8,178	323
Rent	-	8,000	8,000	-
Total Fire Department	-	62,264	54,302	7,962
Total Public Safety	-	157,300	143,637	13,663
Capital Outlay				
Ambulance Department	-	50,000	123,302	(73,302)
Fire Department	-	220,825	219,432	1,393
Total Capital Outlay	-	270,825	342,734	(71,909)
Total Expenditures	\$ -	\$ 428,125	\$ 486,371	\$(58,246)



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

November 2, 2007

Marcellus Area Emergency Services Association
Board of Trustees
177 East Main Street
P.O. Box 367
Marcellus, Michigan 49067

RE: Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of the Financial Statements Performed in
Accordance With Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the governmental activities and each major fund of the Marcellus Area Emergency Services Association (MAESA) as of and for the year ended December 31, 2006, which collectively comprise the MAESA's basic financial statements and have issued our report thereon dated November 2, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered MAESA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the MAESA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the MAESA's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the MAESA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the MAESA's financial statements that is more than inconsequential will not be prevented or detected by the MAESA's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by MAESA's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MAESA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying Schedule of Findings as items 2003-01, 2006-01, 2006-02, and 2006-03.

This report is intended solely for the information of MAESA's Board and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

SCHEDULE OF FINDINGS

STATUTORY NONCOMPLIANCE

Our examination revealed the following instances of noncompliance with State statutes.

Expenditures in Excess of Appropriations

Finding 2003-01

Condition: As noted in our prior years audits, our examination of procedures used by MAESA to adopt and maintain operating budgets for MAESA's budgetary funds revealed instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act:

MAESA's 2006 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the line-item level. As detailed below, actual 2006 expenditures exceeded the board's approved budget allocations for three General Fund line-items.

During the fiscal year ended December 31, 2006, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund--Operating			
Ambulance			
Other Expenses	\$ 250	\$ 393	\$ (143)
Fire			
Other Expenses	250	393	(143)
Capital Outlay	50,000	123,302	(73,302)

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Section 17 of Public Act 2 of 1968.

Directive: We direct that MAESA develop budgetary control procedures for the General Fund, which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

Original Budget Documentation

Finding 2006-01

Condition: MAESA could not provide a copy of the original budget adopted at its December 12, 2005 meeting.

Criteria: According the MCL 141.434, the budget is to be adopted in compliance with the Open Meetings Act which requires all information from meetings be recorded and maintained.

Directive: We direct MAESA to maintain its original budget and keep the documentation in accordance with State statutes.

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

SCHEDULE OF FINDINGS

STATUTORY NONCOMPLIANCE (Continued)

Social Security Number Privacy Policy

Finding 2006-02

Condition: MAESA has not adopted a Social Security Number Privacy Policy.

Criteria: According to the Social Security Privacy Act, PA 454 of 2004 (MCL 455.84) Section 4, subsection 1, beginning January 1, 2006, a person in the ordinary course of business who obtains or retains information about one or more social security numbers must create a policy that does at least all of the following:

- (a) Ensures to the extent practicable the confidentiality of the social security numbers.
- (b) Prohibits unlawful disclosure of the social security numbers.
- (c) Limits who has access to information or documents that contain the social security numbers.
- (d) Describes how to properly dispose of documents that contain the social security numbers.
- (e) Establishes penalties for violation of the privacy policy.

Section 4, subsection 2, requires a person that creates a privacy policy under subsection 1 shall publish the privacy policy in an employee handbook, in a procedures manual, or in one or more similar documents, which may be made available electronically.

Directive: We direct MAESA to adopt a Social Security Number Privacy Policy implementing at least the minimum protections and procedures listed above.

Public Notice of Meetings

Finding 2006-03

Condition: No public notice of the meetings of MAESA is posted as required by State statute.

Criteria: MCL 15.264 requires a public notice be posted at the public body's principal office. Furthermore, MCL 15.265 states a public meeting is not to be held unless public notice is given. MCL 15.265 also requires that the public notice of the meetings state the dates, times, and places of the regular meetings of the public body.

Directive: We direct MAESA post public notices of its meetings as directed in the State statutes above.